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SIPDIS

STATE FOR WHA/CEN, WHA/PPC, AND WHA/EPSC  
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SUBJECT: SCENESETTER FOR CJCS GENERAL MYERS' VISIT TO  
HONDURAS AUGUST 13

Classified By: Charge d'Affaires Roger D. Pierce;  
Reasons 1.5 (B) and (D).

1. (C) Summary. Honduran President Ricardo Maduro, nearing the half-way point of his constitutionally mandated single four-year term, faces numerous challenges in one of the poorest and most corrupt countries in the Western Hemisphere. His Administration has been stalled on its domestic agenda since June of last year and has mustered little progress as it tries to reconcile its ambitious goals to its straitjacketed financial situation. Bilateral relations between the U.S. and Honduras are excellent; Honduras was the first country in the Western Hemisphere to sign and ratify an ICC Article 98 Agreement with the United States. Honduras' support for the international counterterrorism effort is steadfast and the Government of Honduras (GOH) is sending troops to Iraq in support of Operation Iraqi Freedom. The United States and Honduras have maintained a long-standing close relationship framed by such events as the establishment of the banana plantations in the late 1800s, the Contra wars of the 1980s, and reconstruction efforts in the wake of the October 1998 fury of Hurricane Mitch. End Summary.

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Key Issues in Bilateral Relationship  
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2. (C) The central themes in our bilateral diplomatic efforts in Honduras are combating international crime by strengthening governance and attacking corruption, assisting American citizens, fostering economic development, promoting regional stability, promoting trade and investment, and combating terrorism. However, the underlying difficulty to realizing USG objectives is improving the administration of justice and rule of law. President Ricardo Maduro's government is rhetorically committed on all of these issues, but has made very little substantive headway in addressing the myriad problems Honduras faces. While Maduro has also spoken out strongly on tackling corruption, he faces formidable challenges from entrenched economic and political interests in moving his agenda forward.

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Status of the Maduro Government  
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3. (SBU) President Maduro is facing increasing criticism from the political opposition over his government's policies and continued dissatisfaction from his own party's Members of Congress because of his Administration's technocratic style. The Honduran Congress is a focal point of political opposition to his policies. It is a corrupt institution riddled with avaricious politicians, and Maduro's National Party does not control a majority of the unicameral body. Maduro recently lost his coalition partner, the Christian Democrats, who had given Maduro a majority in Congress. The ongoing problems within his own party are serious and threaten his broader political agenda, which will require legislation to advance. Continuing political negotiations will be needed to manage this situation. Maduro's personal life also intruded into the political sphere. His October 2002 wedding to a Spaniard was criticized by many Hondurans who viewed the President as distracted by his personal life. A recent public squabble has not helped the situation.

4. (SBU) The President's standing has remained stalled at a low point since June 2002. Faced with slow progress in his efforts to promote regional economic integration, Maduro's team is pinning its hopes that a U.S.-Central American Free Trade Agreement (CAFTA) can serve as a catalyst to regional economic cooperation. Maduro is also beginning to hear wider disillusionment among the Honduran public as violent crime levels are increasing once again despite his initial "zero tolerance" law and order campaign. Notwithstanding his crackdown on street crime, criminal investigations are usually inadequate and case closure rates, in particular for homicides, remain very low.

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Counterterrorism Cooperation  
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5. (SBU) Maduro is a good and reliable friend of the U.S. on

counterterrorism. His government hosted a major U.S. military counterterrorism exercise in March 2002 and has quickly responded with freeze orders to all U.S. requests regarding suspect terrorist bank accounts. No terrorist assets have been found in Honduran financial institutions, to date. The GOH still needs to take the following concrete steps: designate a national coordinator for counterterrorism, file its national report in accordance with United Nations Security Council (UNSC) Resolution 1373, and most of all, sign and/or ratify the five outstanding international conventions/protocols and two OAS conventions (1971 and 2002) against terrorism. It is also of vital importance for Honduras to improve security at its maritime ports, particularly Puerto Cortes.

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Iraq  
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16. (C) The GOH is in general supportive of key USG foreign policy goals and is a member of the Coalition of the Willing. In support of Operation Iraqi Freedom, the GOH will deploy some 370 troops to the vicinity of An Najaf as part of the Spanish Brigade operating under the Polish Division. The troops are currently scheduled to depart Honduras for Spain on August 10-13. After approximately a week in Spain, they will deploy in conjunction with the other Central American units from El Salvador, Nicaragua, and the Dominican Republic through Kuwait to Iraq. Status of Forces Agreement (SOFA) negotiations are still ongoing between the GOH and the Government of Kuwait (GOK). In the interim, The GOK has given the GOH authority to transit Kuwait under the blanket USG SOFA, however this is not an ideal solution.

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Bilateral Political/Military Issues  
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17. (C) In January of 1999, the constitution was amended to abolish the position of military commander in chief of the Honduran Armed Forces (HOAF), thus codifying civilian authority over the military. Honduras now has a civilian Minister of Defense (MOD) and a Chief of the Joint Staff who heads the HOAF. Civilian control is well accepted by the HOAF, and the transition to civilian control has resulted in greater transparency and fiscal accountability. The current MOD, Fred Breve, enjoys a good relationship with the HOAF military leadership, but the Office of the Minister of Defense still lacks a staff that could provide institutional memory and continuity between the change in political administrations.

18. (C) Honduras was the first country in all the Western Hemisphere to sign and ratify an Article 98 Agreement with the USG. President Maduro, despite domestic political and some regional opposition, has also consistently supported overall USG foreign policy objectives, particularly U.S. efforts to create a stable and peaceful Iraq. President Maduro and his military advisors are very aware that Nicaragua and El Salvador have received FMF funds and question why Honduras, even though it has been a staunch political and military supporter in the region, has not received any funds for many years.

19. (SBU) In January of 02, Honduras formally requested 6 UH-1H helicopters through the EDA program. However, due to changes in US law, the cost of 6 EDA helos rose from about USD 700,000 to USD 4.2 million - an amount the GOH was unable to afford. The original LOA expired some three months ago. This week, however, MOD Breve renewed his request for UH-1H helicopters, and also asked if there was way to get them either free (ie under section 516 as grant aid at no cost to the GOH), or at an extended payment plan, i.e. 15 years. The AMB and country team strongly support any assistance in this area as a principal use for these helos is to support counternarcotics operations. The current Honduran fleet of UH-1H helicopters is in poor condition with a limited life expectancy.

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Soto Cano Air Base - Joint Task Force Bravo  
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10. (SBU) Five hundred fifty-eight U.S. service men and women and eight civilian DOD employees are stationed at Honduras' Soto Cano Air Base under the auspices of SOUTHCOM as Joint Task Force Bravo. In 1954, the USG and GOH signed a Bilateral Military Assistance Agreement that set forth their intention to work closely together to foster peace and security in the Western Hemisphere. The ICC Article 98 Agreement with Honduras is therefore a particularly important accomplishment and will enable our military forces to continue to work together in such areas as disaster relief, joint training exercises, and counternarcotics missions.

## Cerro La Mole Radar

11. (C) In 1993, the U.S. entered into an agreement with the GOH regarding the maintenance of the radar located at Cerro La Mole, under which the U.S. military agreed to pay 75 percent of maintenance costs up to USD 400,000 per year. The U.S. has paid nothing under the agreement, (OSD/CN has stated that the USG cannot fund radars operated by foreign nationals) and the issue affects relations between the U.S. and Honduran militaries. The Embassy has sought guidance from DOD and State on how to resolve U.S. obligations, and recommended that the U.S. either replace the radar with a solid state version (TPS-78) or with another TPS-70 transferred from counterdrug programs. When operational, the radar provides a view of the Honduras-Nicaragua-El Salvador border areas and the Gulf of Fonseca on the Pacific Ocean. A functioning radar in this location could greatly enhance Honduran capability to intercept and track illegal flights. The MOD and CHOD have agreed to share all data from this radar with the US and with its neighbors. Additionally, this radar would be the first step in eliminating the 10 mile "no fly" (without advance notice) corridor between the Honduran and Nicaraguan border - currently a safe haven for illegal flights. The AMB and country team strongly support current efforts to have the radar in Venezuela (currently being dismantled) be made available for EDA for Honduras in December of this year.

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F-5's for MANPADS?  
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12. (C) Honduras maintains a fleet of aging F-5's as part of its overall defense structure, providing Honduras with the most lethal air force in the region. Honduras has been under some regional pressure to give up or reduce its fleet of F-5's as a consolation to Nicaragua who is also being encouraged to give up, or significantly reduce, its stock of Man Portable Air Defense Systems (MANPADS). Honduras has resisted these efforts, suggesting that its fleet of F-5's should be de-coupled from any discussion of MANPADS, which are a potential terrorist weapon.

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Brooke Amendment - GOH Facing Possible Sanctions  
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13. (C) Honduras faces the possibility of mandated Brooke Sanctions in September if three DOD loans totaling USD 1.73 million are not paid in full. This debt is over a year old and once Brooke Sanctions are invoked, no new or pending USG assistance is permitted to proceed, including programs administered by USAID, DOD, and State. These sanctions do not affect existing assistance efforts already obligated by these agencies. The GOH is fully aware of the consequences of falling under Brooke Sanctions but is not clear at all how, or if, the GOH will be able to repay the loans before the September 3 deadline. The situation is further complicated because under the Paris Club rules, the GOH is not allowed to pay only one official creditor.

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Counternarcotics Issues  
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14. (C) Honduras' geography places it squarely in the middle of a major illegal drug transshipment zone and the Embassy estimates that between 80-100 tons of cocaine transit the country annually on its way to the U.S. market. Honduras' airspace is regularly violated by drug traffickers, who also use go-fast boats to transit their cocaine through the region. Heroin and marijuana are likewise transited through Honduras on a lesser scale. Recently, the Embassy has noticed a significant increase in drugs-for-guns bartering between Colombian traffickers and local Honduran smugglers.

15. (C) Honduras has been under heightened USG pressure to increase its effectiveness on counternarcotics issues after disappointing results in 2001 and 2002. This effort appears to have born fruit. The GOH has seized approximately 3,750 kilos of cocaine this year (more than the previous four years combined). While seizure rates have expanded significantly this year, endemic corruption in the Public Ministry and the police continue to hamper long-term efforts to increase the rule of law and reduce the amount of drugs transiting the country.

16. (C) Under pressure from the USG to interdict more drugs, in April the Honduran Air Force shot-down an intruding Colombian aircraft carrying approximately 942 kilos of cocaine, killing the plane's two Colombian crewmembers. SOUTHCOM temporarily suspended sharing of air-track information pending reconfirmation from the GOH that Honduras has a "no shoot-down" policy. The Embassy has since received such assurances and the GOH has stated that the incident was

an aberration. Honduras is fully aware that under U.S. law, the USG is not allowed to share tactical air-track information with countries that employ a shoot-down policy. SOUTHCOM has since restored sharing air-track information with the GOH.

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Anticorruption  
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17. (C) U.S. policy against corruption struck a nerve in Honduras, especially any mention of our visa revocation authorities. Politicians in Congress and certain business elements feel the U.S. is attacking them. Maduro appears committed to addressing corruption, even if it will cost him political support within his party. The Supreme Court President is also on board. However, individual judges remain susceptible to offers of bribes and the Attorney General is unwilling to prosecute high-profile cases. Given the scope of the problem, any public discussion about the country's pervasive corruption is a positive development.

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Supreme Court and Judicial Reform  
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18. (SBU) The Supreme Court is developing into an independent branch of power, unlike all of its predecessor courts since democracy was restored in 1982. It is pro-reform in orientation and fighting for its prerogatives. A key emerging issue is whether it can become a fully independent and co-equal branch of political power, consistent with the separation of powers provision in the Honduran Constitution. The established political order is fighting that prospect with all its might. In fact, the Congress seized the political opportunity to introduce legislation that would amend the constitution to give itself the power to interpret the constitutionality of the laws it passes. The Supreme Court ruled in May that the proposed amendment was unconstitutional, which sparked a tense confrontation between the Supreme Court and Congress. Congress, however, refrained from any precipitous action and the issue has since receded.

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Public Security/Human Rights  
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19. (SBU) Upon taking office on January 27, 2002, President Maduro's first act was to fulfill his main campaign promise -- a zero tolerance campaign against the country's out-of-control crime situation. He deployed more than 5,000 soldiers to the streets to support the police. The public responded enthusiastically. However, despite the initial success of establishing a visible police presence, violent crime, particularly homicides, continues at a high rate. Public support is fading and the campaign needs some visible victories to restore confidence in the government's program. The USG is helping the Maduro government establish an anti-kidnapping unit, increase intake/training of police recruits, create a model tourist police force, boost its counternarcotics efforts, and expand the frontier police. The country's geographic position makes it an obvious strategic transit point for narcotics trafficking, alien smuggling operations and other organized crime activities.

20. (SBU) Extrajudicial killings, especially of children/young adults since 1998, have been a source of serious concern and only recently has the GOH begun to take steps to investigate the hundreds of unsolved cases. There are serious problems with child labor in several industries, particularly melon, coffee, and sugar cane (but not the maquila) sectors, and trafficking in persons of women/children for prostitution in the U.S. and children for commercial sexual exploitation in Central America. USAID and Peace Corps have both been involved in HIV/AIDS prevention.

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Consular Issues  
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21. (SBU) At least 600,000 Hondurans, both legal and illegal, live in the U.S., a fact that places immigration issues high on the bilateral agenda. (The population of Honduras is 6.5 million.) There is deep appreciation for the USG's extension of Temporary Protected Status (TPS) in the U.S. and interest in possible congressional action on the proposed Nicaraguan Adjustment and Central American Relief Act (NACARA), which would give immigration parity for Hondurans. With approximately 18,000 American citizens residing in Honduras and many thousands visiting Honduras annually for tourism and business, American Citizen Services are a key part of the Embassy's work. Since 1995, 34 American Citizens have been murdered in Honduras. There has been little progress on these cases and to date, only two convictions have been made. However, in the last year the GOH has increased cooperation with the Embassy on the remaining cases, including

establishing two prosecutors to further the GOH's effort. Also, little progress has been made on extradition cases involving American Citizens residing in Honduras who are wanted for felonies in the United States.

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Border Relations  
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122. (SBU) Honduras has border disputes with its three Central American land neighbors and its seven maritime neighbors. Maduro is personally engaged with his Presidential counterparts to address these issues. Its land and maritime disputes with El Salvador and Nicaragua are the most heated. The Gulf of Fonseca on the Pacific coast is a particularly difficult point. A 1992 International Court of Justice (ICJ) ruling laid out shared areas of control in the Gulf of Fonseca and established the land border between Honduras and El Salvador, although El Salvador has been slow to implement the ruling. In September 2002, El Salvador requested a revision of the 1992 ICJ ruling. Honduras has responded to this request and opposes any revisions to the original ruling. In the interim, the Organization of American States (as a neutral third party) is providing both nations technical assistance to help them implement the ICJ's ruling.

123. (SBU) On the Caribbean coast, Honduras and Nicaragua have a long-standing maritime border dispute over the 15th parallel. In the past, the dispute has threatened to derail trilateral counternarcotics operations. Honduras provoked Nicaraguan retaliation when it signed a maritime treaty with Colombia recognizing the 15th parallel as its maritime border in 1999. Nicaragua filed an ICJ case over the maritime border and more importantly in 1999 slapped a punitive 35 percent tariff on Honduran goods. This tariff remained in place until April of this year despite a Central American Court of Justice ruling that it is illegal. Only after Honduras responded with a retaliatory tariff, threatening Nicaraguan exports, did Managua back down. Tensions still exist between the GOH and Nicaragua, hampering regional integration and counternarcotics efforts.

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Economic Overview  
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124. (SBU) Honduras, with a per-capita income of only USD 950, is the third poorest country in the Western Hemisphere ahead of only Nicaragua and Haiti. The Honduran economy is growing slowly, with real GDP growth of only two-and-a-half percent in 2002 and 2003. Low world coffee prices also continue to inhibit growth in rural areas. Inflation, at double-digit levels in the late 1990s, has decreased and is now relatively stable at about 8 percent per year, while the currency is depreciating at a rate of about 6 percent per year. The economy continues to be dominated primarily by agriculture, particularly the production of coffee, bananas and cultivated shrimp. However, the in-bond apparel assembly industry (maquilas) has grown dramatically over the past decade and now employs over 100,000 people. Remittances from Hondurans living overseas, primarily in the United States, continue to grow rapidly (up 15 percent in the first six months of 2003) and have become the most important source of foreign exchange. The U.S. is Honduras' largest trading partner and the roughly 150 U.S. companies that do business in Honduras constitute the largest block of foreign direct investors. While many social indicators are improving, two-thirds of all Hondurans live in poverty and average educational levels are very low.

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Stubborn Fiscal Deficits Endanger IMF Program/Debt Relief  
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125. (C) President Maduro inherited a stagnating economy and seriously deteriorated government finances from the previous administration. During its first 18 months in power the Maduro administration has passed two fiscal packages (in May 2002 and April 2003) designed to broaden the tax base, help reduce chronic budget deficits, and move the government on the road to an IMF agreement. However the IMF is still concerned about persistent fiscal deficits, and an IMF agreement is highly unlikely until the Congress passes major civil service reform legislation. The Maduro Administration, however, is hesitant to push these needed reforms because they will fundamentally alter the salary structure of teachers and medical workers who currently benefit from special legislation which gives them annual salary increases well above inflation. Teachers particularly are a powerful special interest group that if agitated could destabilize the government. Moreover, Maduro's lack of congressional support for civil service reform has also hamstrung his efforts.

126. (SBU) Multilateral and bilateral donor disbursements (USD 140 million) will be held up until a new IMF program is in place. There is also pressure on GOH Paris Club debt service



payments (USD 100 million per year), and the completion point for debt reduction under the Highly Indebted Poor Countries initiative (HIPC - worth USD 900 million) continues to slip back further. If unaddressed, this fiscal situation could also impact Honduras' eligibility for Millennium Challenge Account grants.

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U.S.-Central America Free Trade Agreement (CAFTA)  
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127. (SBU) President Maduro, who has identified CAFTA as his government's principal trade objective, is a strong supporter of regional economic integration. The historically weak Ministry of Trade and Industry got a late start in preparing for this year's CAFTA negotiations, but has added staff and been an active participant in the negotiations so far. Latent protectionism exists in the private sector, especially agriculture, but the general attitude toward a free trade agreement in Honduras is guardedly positive. The textile and apparel industry in particular believes that some type of free trade agreement is the only way that the Honduran apparel sector can survive the elimination of quotas in 2005 and compete with Asian manufacturers. As such, it is the strongest supporter of CAFTA.

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U.S. Investment Faces Problems  
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128. (SBU) Maduro's Administration understands the need to increase foreign (and domestic) investment to spur economic growth, but so far has placed its emphasis on the more immediate problems of political and judicial reforms, the fiscal deficit, and needed improvements in security, education and health. The government identified tourism, agribusiness, and forestry as important sectors that could create much-needed jobs. While some efforts to promote tourism have paid off, little headway has been made in the other sectors.

129. (SBU) Much needs to be done to declare Honduras "open for business." Maduro needs to find a way to get his cabinet (and the prickly legislative and judicial branches) to make meaningful changes that will resolve key problems such as: poor and expensive infrastructure; a weak legal system; threats to personal security; weak education and health conditions; land tenure problems; and opposition to large foreign investments by well-connected vested interests.

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Money Laundering and Bank Failures  
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130. (C) Strengthened money laundering legislation, with an anti-terrorist financing clause, was passed in early 2002, and the GOH followed up rapidly with creation of a Financial Information Unit (FIU) for investigation of financial crimes. Currently, over 150 potential cases of money laundering are under investigation. However, without greater participation from the slow and corrupt Public Ministry, responsible for prosecuting such cases, results will be minimal.

131. (SBU) Weakness of the financial system remains a key concern. The GOH took over the two most troubled banks in May 2002 (one has since been closed), arranged for the absorption of a third undercapitalized bank, and is actively promoting mergers among the remaining 20 private banks.

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Embassy Tegucigalpa  
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132. (SBU) Embassy Tegucigalpa is a medium-sized post, employing 140 U.S. citizens and 300 Hondurans among 20 USG agencies. Our Peace Corps program, with more than 220 volunteers, is one of the world's largest, and the USAID mission had a FY03 budget of USD 45 million. The Mission maintains a Consular Agent in Honduras' second city and industrial center, San Pedro Sula.  
Pierce